

THE TOWN OF LEESBURG, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003

Prepared by the
Department of Finance

TOWN OF LEESBURG

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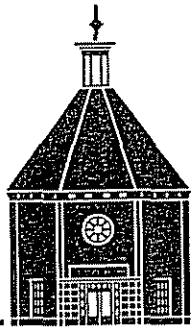
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The Town of
**Leesburg,
Virginia**

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December 1, 2003

To the citizens of the Town of Leesburg:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Town of Leesburg for the fiscal year ended June 30, 2003. Responsibility for the accuracy, fairness and completeness of the data, including all disclosures rests with the government. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and result of operations of the various funds of the government's financial activities.

With the June 30, 2003 financial statements, the Town has implemented Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements- and Management's Discussion and Analysis – for State and Local Governments, as amended. The new format, which provides for Government-wide and major fund presentations, expands the alternatives available to review and examine the Town and its major activities. We believe this new presentation will provide more useful information to users of the CAFR.

The CAFR is presented in four sections: introductory, financial, statistical and compliance. The introductory section includes this transmittal letter, the current Certificate of Achievement for Excellence in Financial Reporting, the government's organization chart, and a listing of principal officials as of June 30, 2003. The financial section includes the Independent Auditors' Report, Management's Discussion and Analysis, the basic financial statements and notes that provide additional information on the Town financial position and operating results, combining statements and other schedules that provide detailed information relative to the basic financial statements. The statistical section includes selected unaudited financial and demographic information, generally presented on a multi-year basis. The compliance section contains the Auditors' report on internal controls and compliance related to an audit performed in accordance with *Government Auditing Standards*. It has also been prepared in conformity with the provisions of the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget's Circular A-133 *Audit of States, Local Governments and Non-Profit Organizations*.

HISTORY AND OVERVIEW OF TOWN GOVERNMENT

Leesburg was established in 1758 and is the county seat of Loudoun County, Virginia, located approximately 40 miles northwest of Washington, D.C. The Town population is 33,470

The Town of Leesburg provides a range of municipal services including police, water and sewer services, sanitation services, engineering and public works, planning, zoning and development, parks and recreation, airport, and general administrative services.

Leesburg has been organized under the Council-Manager form of government since 1962. The Town Council is the legislative body. The six Council members are elected at large for four-year overlapping terms and the Mayor, also a member of Council, is elected for a two-year term. The Council, in its legislative role, adopts all ordinances and resolutions and establishes the general policies. The Council also sets the local tax rate and adopts the budget.

The Council appoints a Town Manager to act as executive and administrative head of the Town. The Manager serves at the pleasure of Council, carries out its policies, directs business procedures, and has the power of appointment and removal of all employees. Duties and responsibilities of the Town Manager include preparation, submission and administration of the capital and operating budgets, advising Council on the affairs of the Town, enforcement of the Charter and laws of the Town, and direction and supervision of all departments.

Town governments in the Commonwealth of Virginia are closely associated with the county in which they are located for the services that are provided to the community. The citizens and businesses located in the Town also pay real and personal property taxes to Loudoun County. In exchange for these taxes, the County provides public, technical and special education services, health and social services, mental health services, judicial services, correctional facilities, and fire and rescue services to Town residents and businesses.

THE REPORTING ENTITY

This report includes all of the funds of the Town, which comprise the Town's reporting entity for financial reporting purposes.

THE LOCAL ECONOMY

Due to the Town's proximity to the diverse Washington, D. C. metropolitan area, the Town has benefited from a robust regional economy fueled by government related employment in the area. As a result, local per capita income levels are well above the state and national averages with low unemployment levels. During the past year, these factors have continued to contribute significantly to the fiscal health of the Town. Downtown Leesburg, once the commercial hub of the County, is an active town center with specialty retail coexisting with professional offices drawn by the government and courts complexes. Newer areas on the outskirts of town, such as the Leesburg Corner Premium Outlet Mall, are attracting revenue producing properties and are contributing substantially to the Town's fiscal well being. Further development surrounding Leesburg Executive Airport offers a viable alternative to locations in the more congested eastern section of the County.

MAJOR INITIATIVES

One of the more significant challenges facing Leesburg is growth and how the Town can successfully meet the demands and services required of a growing community. Loudoun County is reported as the second fastest growing county in the nation in 2001. This unprecedented growth is placing significant demands on the Town to provide services to this expanding population. To cope with these demands, the Town council adopted a \$69,275,2238 budget for fiscal year 2004 and a \$98,435,768 Capital Improvements Program (CIP) for the years 2004-2009. The budget provided funding for three new positions and continues our goal of effecting organizational change. Major projects included in the capital spending plan are: South King Street Trail-phase I, Turn lane at Edwards ferry Road Winding, Sycolin Road Widening, West Market Street Sidewalk and Drainage (land and design), Harrison street Drainage and Sidewalk, North King Street Drainage and Sidewalk, North King Street Drainage improvements, Water Treatment Plant expansion to 15 MGD, Water Pollution Control Expansion Project and Overlay of the Airport Runway.

The challenge of funding the budget and CIP while simultaneously meeting future budgetary demands with reduced financial resources is significant. During the past several years the Council has approved budgets where expenditures have exceeded current revenue resources using surplus funds as a funding source in lieu of raising taxes. This is a trend that cannot be continued into the future. The Town must begin the process of funding the budget with current revenues. With the uncertainties and volatility of the local and national economy, a renewed focus needs to be directed to the Town's fiscal health to ensure that our future financial condition remains stable. This will be a major theme with the submission of the fiscal year 2005 budget.

FINANCIAL INFORMATION

Internal Controls. Management of the Town of Leesburg is responsible for establishing and maintaining an internal control structure designed to reasonably ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America.

In developing and maintaining the Town's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding:

- The safeguarding of assets against loss from unauthorized use or disposition, and
- The reliability of financial records for preparing financial statements and maintaining accountability for assets.

The concept of reasonable assurance recognizes that:

- The cost of a control should not exceed the benefits likely to be derived, and
- The evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that the Town's internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions. In addition, the independent auditors evaluate these controls during the course of their annual audit.

Reporting Standards. The financial information included in this report is presented in accordance with governmental accounting, auditing and financial reporting requirements in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America, the Governmental Accounting Standards Board (GASB) and uniform financial reporting requirements promulgated by the Auditor of Public Accounts of the Commonwealth of Virginia (APA). All of these standards and requirements for governmental accounting, auditing and financial reporting have been incorporated in this report. All are designed to provide an increased level of efficiency and readability to the presentation of a broad range of financial information into one comprehensive report.

Budgetary Control. The Town maintains budgetary control at the department level by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders which result in an overrun of department balances are not released until additional appropriations are made available. Open encumbrances for the general fund are reported as a reservation of the fund balance at the end of the fiscal year.

Cash Management. The Town invests all funds in cash and cash equivalents with maturities planned to coincide with cash needs. The Town funds are invested in state approved financial institutions and investment instruments. The Town earned \$967,000 in interest income on investments for the year ended June 30, 2003. The Town's investment policy is to minimize credit and market risks while maintaining a competitive yield on its limited portfolio. As a local government unit in the Commonwealth of Virginia, the Town is restricted by the Virginia Security for Public Deposits Act (the Act) in utilizing depositories that have been qualified for investments by the Commonwealth of Virginia. Accordingly, deposits were either insured by federal depository insurance or the Act.

Independent Audit. Section 15.2-2511 of the *Code of Virginia* requires an annual audit by licensed independent certified public accountants. The Town selected the accounting firm of PBGH, LLP. In addition to meeting the requirements of the Single Audit Act Amendments of 1996 and the related OMB Circular A-133, the independent auditors' report on the basic financial statements is included in the financial section of this report.

Awards. The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Leesburg for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2002. The Certificate of Achievement in Financial Reporting is a prestigious national award recognizing conformity with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement in Financial Reporting, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

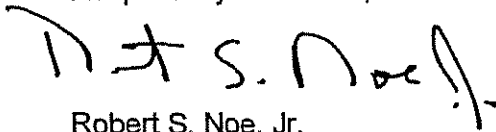
A Certificate of Achievement in Financial Reporting is valid for a period of one year only. The Town has received a Certificate of Achievement for the last 16 consecutive years. We believe our

current report continues to conform to the Certificate of Achievement in Financial Reporting program requirements, and we are once again submitting the report for fiscal year 2003 to the Government Finance Officers Association (GFOA).

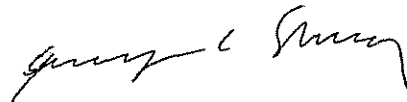
In addition, the GFOA presented a Distinguished Budget Presentation Award to the Town of Leesburg for its annual budget for the fiscal year beginning July 1, 2002. In order to receive this award, a governmental unit must publish a budget document that meets the program criteria as a policy document, as an operation guide, as a financial plan, and as a communication medium. The award is valid for only one year. This is the 17th consecutive year that the government has received this prestigious award. We believe our current budget continues to conform to program requirements, and we have submitted it to GFOA to determine its eligibility for another award.

Acknowledgements. The preparation of the CAFR would not have been possible without the efficient and dedicated services of the entire staff of the Finance department. We would like to express our appreciation to all the members of the department who assisted and contributed to the preparation of this report. Credit also must be given to the Mayor and the Town Council for their support for maintaining the highest standards of professionalism in the management of the Town of Leesburg's finances.

Respectfully submitted,



Robert S. Noe, Jr.
Town Manager



George E. Shelley
Interim Director of Finance

